

quarterly report
of the Council
on Wage and
Price Stability

No.

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

The President
The White House

Dear Mr. President:

Enclosed is the fourteenth quarterly report on the activities of the Council on Wage and Price Stability as required by Section 5 of the Council on Wage and Price Stability Act. This report covers the Council's operations during the three-month period January through March 1978.

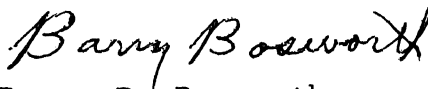
The actions of the Council during that time are listed in Chapter I. Chapters II and III elaborate on the Council's studies, reports, testimony and filings before government agencies during the first quarter of 1978. Chapter IV explains the regulatory analysis review process initiated by your March 23 Executive Order 12044.

The Council will continue its studies of the private sector, evaluating particular price and wage increases as well as the industry-specific factors that shape present and future price movements. The evaluation of the costs and benefits of various government regulations also will continue.

Respectfully,



Charles L. Schultze
Chairman



Barry P. Bosworth
Director

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The complete text of PL 95-121, with the new provisions underlined, appears in the Appendix of this report.

Council Responsibilities

It is the Council's responsibility under the Act to monitor and analyze inflationary activities throughout the economy. In the private sector, the Council examines price and wage activities for inflationary impact. The Council conducts comprehensive studies of certain major industries as well as investigations of specific price or wage increases as they are announced. These investigations are intended to discover whether price increases are warranted by cost or demand considerations. In some instances, the Council has held public hearings to gather data and has issued public reports of its findings. Where the Council has found a wage or price increase to be inflationary, it has issued public statements of its findings and, on occasion, has requested a delay or a reduction in the increase.

The Council also reviews the activities and programs of the departments and agencies of the Federal government to discover whether they have any inflationary impact. It does this in two ways. First, pursuant to Executive Orders 11821 and 11949 and OMB Circular A-107, the Council reviews the "economic impact" analyses that the Executive Branch agencies are required to make of proposed rules and regulations that would have a "major" economic impact. Second, with respect to the independent regulatory agencies as well as the Executive Branch agencies, the Council, pursuant to its statute "review(s) and appraise(s) the various programs, policies, and activities of the departments and agencies of the United States for the purpose of determining the extent to which those programs and activities are contributing to inflation; and intervene(s) and otherwise participate(s) on its own behalf in rulemaking, ratemaking, licensing and other proceedings before any of the departments and agencies of the United States, in order to present its views as to the inflationary impact that might result from the possible outcomes of such proceedings."

The Council has no legislative authority to impose mandatory controls on prices, wages, and interest, rents, profits, dividends or other payments, nor has it the authority to prevent or delay any federal agency action.

COUNCIL AUTHORITY

Congress created the Council on August 20, 1974, by enacting the Council on Wage and Price Stability Act (Public Law 93-387). This Act, which contained an expiration date of August 15, 1975, was amended and extended by the Congress on August 9, 1975 until September 30, 1977 (Public Law 94-78). On October 6, 1977, the President signed into law Public Law 95-121, which extended the Council on Wage and Price Stability until September 30, 1979.

In addition to extending the Council for another two years and increasing its FY 1978 and 1979 authorizations to \$2,210,000 for each year, PL 95-121 amended paragraph 5 of section 3 of the Act by calling on the Council to focus attention on the need to move towards full employment. A new paragraph was also added to section 3 directing the Council to:

(9) review information about and analyze the effects on the U.S. economy of --

A. the participation of the United States in international trade and commerce;

B. the changing patterns of supplies and commodities in the world market;

C. the investment of U.S. capital in foreign countries;

D. short- and long-term weather changes in the world;

E. interest rates;

F. capital information; and

G. the changing patterns of world energy supplies and prices.

Public Law 95-121 also strengthens the confidentiality provisions of the original Act by stipulating that information voluntarily submitted to the Council will be treated as confidentially as information obtained through a subpoena or periodic report; it also strengthens the prohibition against disclosure of confidential information.

CHAPTER I
THE QUARTER AT A GLANCE

The following chronology highlights activities of the Council Wage and Price Stability during the first quarter of 1978. Chapters II and III elaborate on the background and content of many of these actions.

January 23: The Council released its analysis of the recent contract settlement between the International Longshoremen's Association and Atlantic and Gulf Coast shippers. (CWPS-262)

January 23: The Council filed comments before the Interstate Commerce Commission (ICC) supporting their efforts to reduce "irivolous" protests in applications for new interstate trucking authorities. (CWPS-263)

January 31: The Council filed comments before the National Highway Traffic Safety Administration urging them to either delay implementation of their proposed 1980 fuel economy standards for all trucks or adopt less stringent fuel economy standards. The Council noted that, in view of the load carrying demands, care could be exercised so that fuel economy standards do not require too much reduction in performance capability. (CWPS-264)

January 31: The Council filed comments before the Federal Energy Regulatory Commission (FERC) stressing the relevance to the importation of the issue of compensation for curtailment of natural gas and urged FERC to take a broader view of the question in the light of the emerging national policy regarding incremental pricing of supplemental gas.

February 8: Barry P. Bosworth, Director of the Council, testified before the House Committee on the Budget.

February 10: The Council filed comments before the Interstate Commerce Commission (ICC) opposing a petition filed before it by the National Bus Traffic Association, Inc. (NBTA) to reconsider the ICC's rejection of a 10 percent fare increase. The ICC issued an order January 5 limiting the fare increase to 5 percent. The Council stated that the NBTA had not cited any new circumstances as a basis to overturn the ICC's previous order.

February 22: Barry P. Bosworth, Director of the Council, testified before the Senate Committee on the Budget.

March 6: The Council filed comments before the Interstate Commerce Commission (ICC) arguing that general rate increases are an inefficient and inflationary means of raising needed

revenues for railroads. In a case involving railroad rates for coal shipped to San Antonio, Texas, the Council concluded that within a zone of reasonableness differential pricing should be allowed.

March 7: The Council filed comments before the Commodity Futures Trading Commission opposing an outright ban on options trading being proposed by the CFTC. The Council suggested that this was an inappropriate solution to the problem of increased scandals connected with the sale of commodity options. (CWPS-1

March 20: The Council filed comments before the Federal Reserve Board supporting their proposal to allow automatic transfer of funds from savings to checking accounts. The Council felt this proposal is an improvement over an earlier one proposed by the Federal Reserve Board. (CWPS-266)

March 1978: The Council released its staff report, written by Zachary Dyckman, A Study of Physicians' Fees.

CHAPTER II

MONITORING THE PRIVATE SECTOR

The Council's responsibility to identify and analyze inflationary influences in the economy extends to both the private and the public sector. Inflationary influences in the private sector are evaluated by the Council's Office of Wage and Price Monitoring. The Council's Office of Government Operations and Research is concerned with examining the inflationary potential of federal regulatory policies. Details of the past quarter's activities of this office will be found in Chapter III. All of the Council's filings in the public sector and its wage and price studies in the private sector are available to the public.

The Council's responsibility to identify and analyze inflationary influences in the private sector extends to long-term structural factors that may affect price and wage movements, as well as to specific price increases.

In its pricing studies, the Council's Office of Wage and Price Monitoring investigates capacity, profit, price, demand and supply conditions in individual industries or sectors. It also analyzes structural features and changes in the general economic environment -- industrial concentration, noncompetitive practices, comparative price behavior, and other factors -- that may affect the performance of the economy with respect to prices. These studies are used, where appropriate, to urge firms to exercise price restraint.

In monitoring wages, the Office cooperates with labor and management to improve the structure of collective bargaining. It also conducts general wage studies and strives to improve wage data bases in both the public and private sectors of the economy.

A summary of the studies completed and released this quarter follows.

Price Monitoring

PHYSICIANS' FEES

In March, the Council released a report on physicians' fees prepared by senior Economist Zachary Dyckman. The report said that the cost of physician care is increasing at a disturbing rate. Last year alone, physician fees rose 9.3 percent -- 50 percent more than other consumer prices. The 1977 increase followed a pattern that spans nearly three decades. In fact, ever since 1950, physician fees have consistently outpaced overall inflation except during the 1971-74 period of wage and price controls. Over the entire 1950-77 period, physicians' fees increased 43 percent faster per year than non-medical care prices. Sharply rising medical care prices have contributed to a steady increase in the share of GNP represented by health care outlays, going from 4.5 percent of GNP in 1950 to 9.3 percent today.

Consumer outlays for physician services have risen even faster than fees, increasing from \$2.7 billion in 1950 to about \$35 billion in FY 1978. Sixty percent of the increase in consumer dollars paid to physicians was caused by higher fees, with the rest due to population growth and an increase in the amount of physician services, such as diagnostic tests and more frequent visits.

Physicians' incomes have grown rapidly as the result of fee inflation. The median income of self-employed physicians, \$63,000 in 1976 -- is higher and has risen faster than that of any other major occupational or professional group for which historical income data are available, a trend that has been developing for many years.

Moreover, there is substantial income variation among specialties within the profession and the variations do not appear to be related to supply conditions. Supply, in fact, seems to have little bearing on fee structures and incomes. While there are more surgeons than primary care physicians, surgeons' income levels are considerably higher than those of internists, general practitioners and pediatricians. Pathologists and radiologists have the highest earnings among broad specialty groups.

This report also examines geographic variation in surgical fee levels. Average surgical fees are more than twice as great in some large cities, such as New York, than in some smaller communities. After accounting for both metropolitan area size and cost-of-living differences, fees are still more than 50 percent higher in some locations than in others. There is no statistical evidence that fees are lower where relative surgeon supply is greatest. In fact, when variations in cost-of-living for different areas are not taken into account, fees are found to be higher where the relative physician supply is greater. This is consistent with the view that normal market forces are weak or almost non-existent as constraints on surgical fee inflation. One possible explanation for this is that physicians have a target level of income. And when demand for their services is insufficient to achieve that income level, they raise their fees in order to achieve it.

Causes of Physician Fee Inflation

The principal causes of rapid physician fee inflation and growth in consumer outlays for physicians' services have changed dramatically since 1965. During the 1950's and early 1960's, the relatively high rates of physician fee inflation could be traced in large part to the anticompetitive practices of organized medicine, designed in some measure to increase both fee and income levels of practicing physicians. Through control of medical school accreditation, the American Medical Association reduced the number of medical students during the 1930s and restricted medical school growth during the 1940s and 1950s. Partly because of these restrictions, the physician population ratio was lower in 1960 than in 1950. With per capita demand for medical services increasing because of substantial growth in disposable income and health insurance coverage, a declining supply of physicians per capita resulted in both higher fees and incomes. Physicians' fees rose 60 percent between 1950 and 1965, compared to 30 percent for non-medical care prices. And physicians' incomes increased 230 percent between 1947 and 1965, compared to 120 percent for average earnings of all U. S. workers.

At the same time, state and local medical societies put additional upward pressure on doctor bills by discouraging both price competition among physicians and the establishment of prepaid medical group practice, the forerunner of the health maintenance organization.

Since 1965, the number of medical students and the per capita supply of physicians have increased substantially, and

anticompetitive practices of organized medicine have ceased to be an important source of physician fee inflation. These past practices, however, are partially responsible for the high levels of prevailing physicians' fees that contribute to the current \$185 billion nationwide medical care bill.

A primary cause of rapidly increasing physicians' fees and growth in expenditures for physicians' services since the mid-60s has been the growth in private and public health insurance coverage and changes in methods of insurer payment for physicians' services. While increased insurance coverage enabled many people to receive required medical care, it also to a large extent exempted physicians' fees from the usually restraining effects of market forces that exist for most other consumer products and services.

Currently about 80 percent of the population have private health insurance covering physicians' services. While the number of persons insured for physician expenses grew most rapidly during the 1950s, the comprehensiveness of insurance coverage improved most sharply after 1965. Along with greater comprehensiveness of coverage came a change in the method of paying for physicians' services, a change that significantly reduced consumer incentives to resist higher costs of physician services. Instead of the earlier method of insurers' paying fixed dollar amounts under a fee schedule -- amounts that were usually substantially below the physicians' customary or "list price" fee -- many insurers adopted a "usual, customary and reasonable" (UCR) fee. Insurers using the UCR method typically reimburse 80 to 100 percent of the fee charged by the physician, as long as this fee is not among the highest 10 percent of fees for that service in the area. In a market where about 60 percent of the cost of services is reimbursed by either private insurance or public health benefit programs, a payment mechanism based on a physician determining his own fee can be expected to result in high rates of inflation. The Council found that earnings of physicians in specialties for which third party payments (i.e. insurance) are the primary source of revenue are substantially greater than earnings of physicians in other specialties.

Thus, the growth in health insurance enrollment, the implementation of the Medicare and Medicaid programs for the aged and poor, and the change in reimbursement approaches of insurers from widespread reliance on the indemnity approach to the increasing prevalence of the more generous usual, customary and reasonable approach have contributed to the sharp rise in the physician fee component of the Consumer Price Index.

as hospital costs) is the dramatic improvement in the medical care system and the willingness of the American people, with higher incomes and better insurance coverage, to pay for it. Sophisticated and often highly expensive medical services are being used today to treat illnesses and conditions for which treatment may not have been available or was considerably inferior as little as ten years ago. Much of this sophisticated care is being provided by specialists, who increased from less than 40 percent of all physicians in 1950 to about 85 percent in 1976. This increase in specialization has also resulted in greater fee inflation, since specialists tend to charge higher fees than general practitioners for similar services.

The supply of physicians has increased substantially since 1970, from 158 per 100,000 persons to 177 in 1975. The Department of Health, Education and Welfare estimates that, because of continued immigration of foreign-trained physicians and expanding medical school enrollment, the physician supply will increase even more rapidly in future years. The projected supply in 1985 is 222 per 100,000 population. There is some evidence that a substantial proportion of new physicians is practicing, not in areas of short physician supply, but in already oversupplied areas. It has been suggested that, given extensive insurance coverage and lack of consumer resistance to large expenditures for physician services, physicians practicing in these oversupplied areas can, to a certain extent, induce demand for their services and raise their fees. Thus, additional physician and hospital costs may be generated in already high medical care utilization areas, perhaps with little improvement in overall health care.

Physicians themselves faced a sharp climb in malpractice insurance premiums, which according to one source rose 84 percent in 1975 and 42 percent in 1976. While malpractice insurance costs to the physician seem to have stabilized in 1977, physician fees in that year continued to increase at a substantially higher rate than all consumer prices. In the absence of major insurers' altering their reimbursement practices or substantially increasing copayment for physicians' services, there is little reason to predict that physician fee inflation will not continue to outpace price increases in the overall economy.

In terms of consumer outlays for physicians' services, the situation is similar. Extensive insurance coverage has removed consumer resistance to the use of high cost services; there is an increasing incidence of physicians' providing additional costly diagnostic tests to ward off malpractice suits; and the increasing number of physicians and their

evidenced capability to provide additional and more costly services may portend even more rapid rates of growth in consumer outlays for medical services than are currently being experienced.

An additional finding of this report does not relate specifically to physicians' fees, but to a bias in the CPI measure of total medical price inflation. The CPI "basket" of medical care goods and services does not reflect actual medical care expenditure patterns, primarily because it includes only medical care paid for directly by urban employees. Excluded are employer contributions for health insurance. Those items for which health insurance directly pays a greater portion than others would, therefore, have smaller weights in the CPI than they have in actual health expenditures. Because medical services that are underweighted in the CPI -- primarily hospital care -- have experienced more rapid inflation than overweighted items, medical care price changes, as reflected in the CPI, understate the actual rate of medical care inflation.

The extent to which the CPI has understated medical care inflation over the 1967-76 period has been estimated at 27 percent, or 1.3 percent per year. The problem of underweighting hospital care relative to other medical care items was exacerbated in the revised CPI introduced in March, 1978, because employer-paid health insurance has increased in relative importance in recent years.

STEEL TRIGGER PRICES

In January 1978, the Department of the Treasury, faced with a backlog of anti-dumping petitions, instituted a "trigger" price program for monitoring the prices of steel mill products imported into the United States. The trigger prices set under this program act as a screening device to help the Treasury Department identify steel shipments imported at prices below the "fair value" standard of the Antidumping Act as amended in 1974. Thus, without the need for a specific complaint initiated by a private party, the Treasury Department can gather information on import sales below trigger prices and determine, on an expedited basis, if an anti-dumping proceeding against such sales should be initiated.

To implement the mechanism, a price had to be calculated for almost every product within the whole spectrum of steel mill products imported into the United States, including base prices for each typical product along with "extras" charges for variations on steel, chemistry, product dimension, surface

with the Treasury Department.

The trigger prices represent estimated production costs of the world's most efficient producer, and thus were based on the Japanese cost of production of each steel product, including base costs plus extras (where appropriate), handling charges, freight costs, insurance, and interest. The base costs of product production, comprised of raw materials, energy and labor costs, plus overhead, interest, depreciation and profit, were built up from a close examination of input usage requirements, input costs and product yields.

In performing these detailed cost calculations, the Council staff relied primarily on evidence made available by the Japanese Ministry of International Trade and Industry, as well as other published and unpublished information.

Wage Monitoring

INTERNATIONAL LONGSHOREMENS' ASSOCIATION SETTLEMENT

In keeping with its policy of analyzing major collective bargaining settlements important to the economy, the Council on January 18 released its analysis of the settlement between the International Longshoremen's Association (ILA) and shippers on the Atlantic and Gulf Coasts. Similar analyses of major settlements in the steel and telephone communications industries were released earlier in exercise of the Council's legislative mandate to monitor significant wage developments in the economy.

The Council found that the settlement, covering about 45,000 longshoremen, increases wages by 10 percent in the first year and 30 percent over three years -- an average annual increase of 9.2 percent. Total compensation gains are 10.2 percent in the first year and 30.5 percent overall - an average annual gain of 9.3 percent that is comparable to increases in other major settlements in the 1976-77 bargaining round.

In addition, the agreement also established a new fund to guarantee benefits in all 34 ports under a Job Security Program. The Council noted that these job security provisions will raise shipping costs by additional amounts that cannot be calculated with any certainty. While these provisions are intended to protect longshoremen from the impact of growing automation in cargo handling, by raising labor costs they could in the long run have the opposite effect of further reducing employment by speeding the introduction of further automation.

CHAPTER III

MONITORING FEDERAL ACTIONS

Transportation

Trucking

Trucking Entry Proceedings

On January 23, the Council supported, and sought to strengthen, a proposal by the Interstate Commerce Commission (ICC) to reduce "frivolous" protests in applications for new interstate trucking operating authorities.

Under present motor carrier regulations, anyone who wants to operate as an interstate common carrier must hold an ICC-issued certificate of public convenience and necessity. An application for this certificate may be challenged by firms already in the trucking business. They usually do so on the grounds that they can already handle the traffic, and thus new entrants into the market will provide new services not needed by the public.

The ICC noted that the ease of making such protests has encouraged an excessive number of them, many of which could be considered "frivolous." Therefore, a substantial backlog of entry applications has developed, threatening to reduce the responsiveness of regulation to the needs of the public.

An ICC staff task force recommended that, to have standing, those protesting new applications should have participated in the traffic involved during a two-year period before the application was filed.

The Council questioned whether this task force proposal would be stringent enough to reduce the number of frivolous requests. It recommended instead that the ICC consider increasing the costs of protesting by requiring unsuccessful protesters to pay the applicant's legal costs, and by restructuring the fee system so that protestants' fees are higher than applicants' fees.

Buses

Intercity Bus Fares

On February 3, the National Bus Traffic Association, Inc (NBTA) petitioned the ICC to reconsider its January 5 order

allowing NBTA to increase bus fares by 5 percent; NBTA had asked for a ten percent increase. NBTA argued that the 5 percent increase fell far short of providing the revenue level needed if bus companies were to continue to provide the service and facilities their passengers required.

In a February 10 filing before the ICC, the Council argued that NBTA had not cited any new circumstances as a basis to overturn the ICC's previous order, other than the obvious fact that bus industry operating expenses were expected to be higher in 1978 than 1977. The Council further noted that NBTA's cost projections showed that the financial position of the bus industry was improving, rather than deteriorating as they alleged.

The Council urged that NBTA's petition be rejected. Not only was it unnecessary under the present circumstances, but it would also set a bad precedent for future rate regulation.

Railroads

San Antonio Coal Rates

As part of its efforts to promote more efficient railroad rates, the Council on March 6 filed comments before the ICC in a case involving railroad rates for coal shipped to San Antonio, Texas.

In earlier filings, the Council had argued that general rate increases--which totaled about \$1 billion in 1977--were inefficient and inflationary methods of raising needed railroad revenues. Therefore, where market conditions permitted them, it stated that selective rate increases were preferable, provided such rates were subject to reasonable ceilings.

In the San Antonio case, the Council questioned whether fully allocated costs represented an appropriate rate ceiling. The Council argued that national transportation policy requires efficient rates, which may be either above or below fully allocated costs, depending on market conditions. The use of fully allocated costs as a basis for establishing rates would drive away profitable traffic, ultimately leading to even higher rates on the traffic that remained. Carefully implemented differential pricing would, according to the Council, lead to a reduction in the nation's bill for transportation.

The Council concluded that differential pricing within a zone of reasonableness to be determined by the ICC should be allowed. It did not endorse a specific rate for coal shipped to San Antonio or any other point.

Fuel Economy Standards for Small Trucks

On January 31 the Council urged the National Highway Traffic Safety Administration (NHSTA) to delay implementation of its proposed 1980 fuel economy standard for light duty trucks and vans. NHSTA had proposed that manufacturers of two-wheel drive light trucks be required to increase fuel economy from its 1979 to 1980 vehicles by about 21 percent, with another 7 percent in 1981. Four wheel drive vehicles must have improved fuel economy by 15 percent in 1980 and another 9 percent in 1981.

NHSTA said that the changes were technologically feasible for most 1980 and 1981 model year vehicles and estimated the cost at about \$155 per truck. The Council pointed out that the truck manufacturers had strongly contested both NHSTA's estimates of technological feasibility and the cost of compliance. Moreover, NHTSA itself had acknowledged that a significant portion of the industry could not meet the standard. Instead, NHTSA expected that automakers who were unable to comply with the standard would still produce a full line of trucks and pay a fine for non-compliance.

The truck manufacturing industry rebutted that it would be illegal for them to produce trucks that did not meet the fuel economy standard; thus, heavier truck production would be severely limited in order to bring the fleet average into compliance with the standard. Since it was doubtful that the standard could be implemented without threatening significant price increases and/or potential shortages of suitable trucks for many users, as well as possible plant layoffs and closing, the Council recommended that NHTSA either delay or adopt less stringent fuel economy standards for 1980 and 1981.

During this delay, the Council suggested that the engineering dispute over the feasibility and the practicality of the standard could be resolved. If it were not resolved, in all likelihood the standard would be delayed in the courts anyway because of the Congressional mandate to develop fuel economy standards that are both technologically feasible and economically practicable.

In March the NHTSA issued final regulations which are much more feasible than its original proposal.

Federal Energy Regulatory Commission

Compensation for Natural Gas Curtailment Plans

On January 31, the Council commented on the Federal

Energy Regulatory Commission (FERC) proposals for requiring compensation provisions in natural gas curtailment plans. The FERC was under court mandate to consider such a scheme.

The Council pointed out that the Administration was in the process of reviewing national policy with regard to the importation and pricing of liquefied natural gas (LNG). The question of the appropriate pricing mechanism for supplemental gas is a critical one, since it has far-reaching implications for inflation, economic efficiency, and the balance of payments.

If incremental LNG pricing were adopted, both its practicability and the viability of future LNG projects would depend on the curtailment policy that might be adopted. If LNG were not excluded from the application of a curtailment policy, the Council noted there was a strong prima facie case on grounds of economics and equity to allow adequate compensation.

Because of the unsettled policy issues about LNG, the Council did not advocate a specific policy regarding compensation for LNG curtailment. Rather, it urged the FERC to take a broader view of the compensation issue than it had done so far, and to carefully consider any possible effects on LNG policy now under review.

The Council was especially concerned that the FERC not rule out compensation generally from curtailment plans, since this could hinder and possibly preclude incremental pricing of LNG and all other supplemental gas. It urged that the resolution of this problem best be left to an explicit policy decision.

Commodity Trading

Commodity Options Transactions

On March 6, the Council protested a proposal by the Commodity Futures Trading Commisison (CFTC) to prohibit commodity options transactions.

The Council recognized CFTC's difficulties in trying to eliminate abuses in options trading but argued that the extreme measure of banning all transactions was not an appropriate solution to the problem.

The Council reiterated its view (expressed in detail in an earlier filing) that the availability of options can contribute to economic efficiency and lower prices, and voiced its concern about the possible anti-competitive effects of banning all options trading. The problems associated with options may primarily be caused by severely restricted trading, including not permitting any trading on organized

exchanges. The Council therefore urged CFTC to accelerate the implementation of its proposed pilot program allowing trading on organized exchanges. This expanded competition would, by itself, go a long way towards eliminating trading abuses.

Banking

Automatic Funds Transfer

On March 20 the Council supported a revised proposal by the Board of Governors of the Federal Reserve System to allow the automatic transfer of funds from savings to checking accounts. The Council had supported an earlier proposal because of the potential savings of real resources due to reduced check clearing costs and a reduced distinction between savings and checking accounts.

The revised proposal, in the Council's opinion, represented an improvement over the earlier proposal since it eliminated the minimum transfer provision and reduced the interest forfeiture penalty. The Council said the present proposal would be improved by entirely eliminating the interest penalty; this would allow market forces to determine the appropriate charge for this service.

Finally, the Council suggested that the proposal be widened to include business and government as well as individuals. Any savings realized could then be passed on to consumers and taxpayers.

REGULATORY ANALYSIS

On March 23, the President signed Executive Order 12044, whose objective is to improve government regulations. This order requires Executive branch agencies to prepare Regulatory Analyses for regulations that may have major economic consequences. Major economic consequences are defined rather generally as:

- (1) effect on the national economy of \$100 million or more in any given year (for example, compliance costs that exceed \$100 million), or a lesser impact if the agency head so determines; or,
- (2) major increases in costs or prices for individual industries, levels of government or geographic regions.

(An agency head may also direct that a Regulatory Analysis be prepared for any other regulation issued by that agency.) In addition to providing this general guidance, the Executive Order requires that each agency publish in the Federal Register its own specific criteria, subject to Office of Management and Budget (OMB) approval, for identifying which regulations require Regulatory Analysis.

This new requirement replaces the previous requirement for Economic Impact Analyses and Inflation Impact Statements (Executive Orders 11821 and 11949). The Council on Wage and Price Stability, in cooperation with OMB (which has primary responsibility for assuring the effective implementation of Executive Order 12044) and the Council of Economic Advisers (CEA), prepared the following explanation of this new analytical requirement, in response to agency requests for further guidance.

A Regulatory Analysis is to be prepared and used by the agency during the initial stages of a proposal's development in order to facilitate a careful examination of alternative approaches early in the decisionmaking process. The Regulatory Analysis will serve as a basis for initial as well as final decisions. When a proposal is published in the Federal Register as a Notice of Proposed Rulemaking, the Notice shall announce the public availability of the draft Regulatory Analysis. A final Regulatory Analysis shall be made available to the public when the final regulation is published.

Each Regulatory Analysis shall contain:

- (1) a succinct statement of the problem that necessitates Federal action;

(2) a description of the major alternative ways of dealing with the problem that are being considered by the agency; these alternatives include such things as;

(a) alternative types of regulations

- (i) no regulatory action (e.g., rely on market solution)
- (ii) an informational requirement (e.g., product labeling)
- (iii) "performance" approaches that specify outcomes (e.g., level of allowable emissions or exposure or fuel efficiency) but allow the firm (or whoever is regulated) to produce these outcomes by whatever means it prefers
- (iv) "design" approaches that specify more or less completely how a proposed outcome is to be achieved (e.g., use of engineering controls as distinct from personal protective devices or work practice controls, installation of prescribed equipment, etc.)

(b) alternative stringency levels

- (i) making the standard more or less stringent (for example, setting at higher or lower levels price supports, permissible chemical exposure levels, effluent discharge levels, etc.)
- (ii) specifically tailoring degree of stringency to stages of processing, particular industries or other pertinent groups

(c) alternative timing

- (i) using different effective dates
- (ii) phasing-in the requirement more or less gradually

(d) alternative methods of ensuring compliance

- (i) use of economic incentives, such as user fees which decline with improved performance

(ii) various enforcement options (on-site inspections vs. periodic reporting, sharing implementation responsibilities variously with the different levels of government, etc.)

(iii) use of different compliance methods for different industry segments or types of economic activity where costs of compliance vary sharply (e.g., treating small firms and large firms differently)

(3) an analysis of the economic consequences--direct as well as indirect effects, and their significance--of each of these alternatives (including the no action alternative); such consequences should be presented in comparative form to sharpen the issues and provide a clear basis for choice among alternatives; these consequences include:

(a) specific burdens imposed by each alternative

(i) what types of burdens (and how much) are placed on specific groups as a result of compliance?

- o capital outlays
- o other costs of compliance including operating and maintenance costs
- o administrative burden (reporting requirements, delays, uncertainty, etc.)

(ii) who bears these burdens?

- o what burden falls on what types of enterprises, levels of government, regions?
- o how are consumers and various population groups burdened?

(b) specific gains produced

(i) what types of specific gains (and how much) to society as a whole would each alternative produce?

(ii) who would be helped, how, and by how much, by each alternative?

(c) overall economic impacts of each alternative

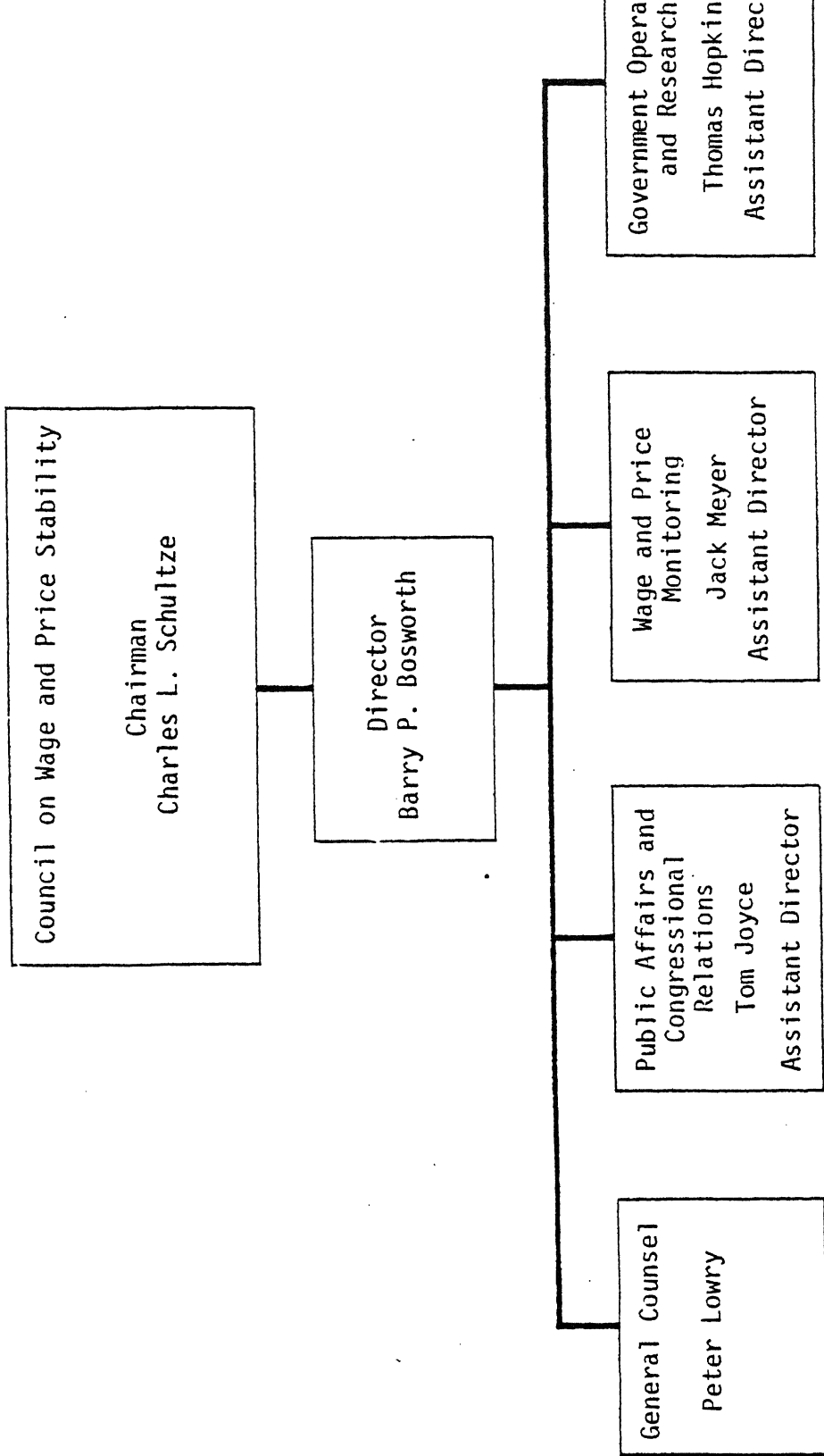
- (i) how would productivity and overall economic efficiency be affected?
 - (ii) how would prices and employment be affected?
- (4) a detailed explanation of the reasons for choosing one alternative over the others; questions to be answered:
 - (a) Will the selected alternative produce the intended results in the least burdensome manner possible? If not, why is this the preferred alternative?
 - (b) Why isn't the action more stringent? Less stringent? What tradeoffs does the selected alternative reflect?

As noted above, Regulatory Analyses required by Executive Order 12044 are made available in draft form for public comment when the corresponding regulatory proposals are first published in the Federal Register. A limited number of these Regulatory Analyses also are reviewed by an interagency Regulatory Analysis Review Group set up by the Presidential directive to complement the Executive Order in stimulating improved regulations.

The Regulatory Analysis Review Group is chaired by the CEA and has as members the principal economic and regulatory agencies of the Executive Branch. Analytical staff support for the Review Group is provided by the Council on Wage and Price Stability.

In March the Review Group selected for its first full review a proposal from the Occupational Safety and Health Administration to reduce allowable worker exposure to acrylonitrile. The Review Group is also informally involved in a few other regulatory issues, since it does provide a useful forum for inter-agency discussion of regulatory problems.

COUNCIL ON WAGE AND PRICE STABILITY



The Council on Wage and Price Stability Act,
Public Law 93-387 (August 24, 1974) as amended
by Public Law 94-78 (August 9, 1975)
and Public Law 95-121 (October 5, 1977)
12 U.S.C. Section 1904, vote

AN ACT

To authorize the establishment of a Council on Wage and Price Stability

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Council on Wage and Price Stability Act".

Sec. 2 (a) The President is authorized to establish, within the Executive Office of the President, a Council on Wage and Price Stability (hereinafter referred to as the "Council").

(b) The Council shall consist of eight members appointed by the President and four adviser-members also appointed by the President.

(c) There shall be a Director of the Council who shall be appointed by the President by and with the advice and consent of the Senate. The Director shall be compensated at the rate prescribed for level IV of the Executive Schedule by section 5315 of title 5, United States Code. The Director of the Council shall perform such functions as the President or the Chairman of the Council may prescribe. The Deputy Director shall perform such functions as the Chairman or Director of the Council may prescribe.

(d) The Director of the Council may employ and fix the compensation of such officers and employees, including attorneys, as are necessary to perform the functions of the Council at rates not to exceed the highest rate for grade 15 of the General Schedule under section 5332 of title 5, United States Code. Except that the Director, with the approval of the Chairman may, without regard to the provisions of title 5, United States Code, relating to appointments in the competitive service, appoint and fix the compensation of not to exceed five positions at the rates provided for grades 16, 17, and 18 of such General Schedule to carry out the functions of the Council.

(e) The Director of the Council may employ experts, expert witnesses, and consultants in accordance with the provisions of section 3109 of title 5, United States Code, and compensate them at rates not in excess of the maximum daily rate prescribed for grade 18 of the General Schedule under section 5332 of title 5, United States Code.

(f) The Director of the Council may, with their consent, utilize the services, personnel, equipment and facilities of Federal, State, regional, and local public agencies and instrumentalities, with or without reimbursement therefor, and may transfer funds made available pursuant to this Act to Federal, State, regional, and local public agencies and instrumentalities as reimbursement for utilization of such services, personnel, equipment, and facilities.

(g) The Council shall have the authority, for any purpose related to this Act, to --

(1) require periodic reports for the submission of information maintained in the ordinary course of business; and

(2) issue subpoenas signed by the Chairman or the Director for the attendance and testimony of witnesses and the production of relevant books, papers, and other documents, only to entities whose annual gross revenues are in excess of \$5,000,000;

relating to wages, costs, productivity, prices, sales, profits, imports, and exports by product line or by such other categories as the Council may prescribe. The Council shall have the authority to administer oaths to witnesses. Witnesses summoned under the provisions of this section shall be paid the same fees and mileage as are paid to witnesses in the courts of the United States. In case of refusal to obey a subpoena served upon any person under the provisions of this section, the Council may request the Attorney General to seek the aid of the United States district court of any district in which such person is found, to compel that person, after notice, to appear and give testimony, or to appear and produce documents before the Council.

Sec. 3 (a) The Council shall --

(1) review and analyze industrial capacity, demand, supply, and the effect of economic concentration and anticompetitive practices, and supply in various sectors of the economy, working with the industrial groups concerned and appropriate governmental agencies to encourage price restraint;

(2) work with labor and management in the various sectors of the economy having special economic problems, as well as with appropriate government agencies, to improve the structure of collective bargaining and the performance of those sectors in restraining prices;

(3) improve wage and price data bases for the various sectors of the economy to improve collective bargaining and encourage price restraint;

(4) conduct public hearings necessary to provide for public scrutiny of inflationary problems in various sectors of the economy for the purpose of controlling inflation;

(5) focus attention on the need to increase productivity in both the public and private sectors of the economy and focus attention on the need to move toward full employment;

(6) monitor the economy as a whole by acquiring as appropriate, reports on wages, costs, productivity, prices, sales, profits, imports, and exports;

(7) review and appraise the various programs, policies, and activities of the departments and agencies of the United States for the purpose of determining the extent to which those programs and activities are contributing to inflation;

(8) intervene and otherwise participate on its own behalf in rulemaking, ratemaking, licensing and other proceedings before any of the departments and agencies of the United States, in order to present its views as to the inflationary impact that might result from the possible outcomes of such proceedings; and

(9) review information about and analyze the effects on the United States economy of --

(A) the participation of the United States in international trade and commerce;

(B) the changing patterns of supplies and prices of commodities in the world market;

(C) the investment of United States capital in foreign countries;

(D) short-and long-term weather changes in the world;

(E) interest rates;

(F) capital formation; and

(G) the changing patterns of world energy supplies and prices.

(b) Nothing in this Act, (1) authorizes the continuation, imposition, or reimposition of any mandatory economic controls with respect to prices, rents, wages, salaries, corporate dividends, or any similar transfers, or (2) affects the authority conferred by the Emergency Petroleum Allocation Act of 1973.

Sec. 4) Any department or agency of the United States which collects, generates, or otherwise prepares or maintains data or information pertaining to the economy or any sector of the economy shall, upon the request of the Chairman of the Council, make that data or information available to the Council.

(b) Disclosure of information obtained by the Council from sources other than Federal, State, or local government agencies and departments shall be in accordance with the provisions of section 552 of title 5, United States Code.

(c) Disclosure by the Council of information obtained from a Federal, State, or local agency or department must be in accord with section 552 of title 5, United States Code, and all the applicable rules of practice and procedure of the agency or department from which the information was obtained.

(d) Disclosure by a member or any employee of the Council of the confidential information as defined in section 1905 of title 18, United States Code, shall be a violation of the criminal code as stated therein.

(e) Consistent with the provisions of section 7213 of the Internal Revenue Code of 1954, nothing in this Act shall be construed as providing for or authorizing any Federal agency to divulge or to make known to the Council the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed solely to the provisions of the Internal Revenue Code of 1954, thereof, to be seen or examined by the Council.

(f) (1) Product line or other category information relating to an individual firm or person and obtained under section 2(g) or submitted voluntarily pursuant to a Council request and judged by the Council to be confidential information shall be considered as confidential financial information under section 552(b)(4) of title 5 of the United States Code. Neither the Director nor any member of the Council may permit anyone other than sworn officers, members, and employees of the Council to examine such data.

(2) Periodic reports obtained by the Council under section 2(g) or submitted voluntarily pursuant to a Council request and copies thereof which are retained by the reporting firm or person shall be immune from legal process.

Sec. 5. The Council shall report to the President and through to the Congress, on a quarterly basis and not later than thirty days after the close of each calendar quarter, concerning its activities, findings, and recommendations with respect to the containment of inflation and the maintenance of a vigorous and prosperous peacetime economy.

Sec. 6. There is hereby authorized to be appropriated not to exceed \$1,700,000 for each fiscal year ending prior to October 1, 1977, not to exceed \$2,210,000 for the fiscal year ending September 30, 1978, not to exceed \$2,210,000 for the fiscal year ending September 30, 1979, to carry out the purposes of the this Act.

Sec. 7. The authority granted by this Act terminates on September 30, 1979.

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